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Summary: Coming into 2003, the multiemployer plan actuary faces a hostile environment. Sharply lower interest rates coupled with a third consecutive year of negative equity returns have proven to be a hazardous mix. Our panelists share their experience and expertise in consulting to multi-employer plans. Topics include rising minimum funding in the face of fixed contractual contribution rates; improving the lines of communication between professional advisers, the board of trustees and the fund administrator; and late-breaking developments related to multi-employer plans.

MS. NANCY WAGNER: I'm with Norman and have been with Norman for about 27 years now. A lot of my work has to do with multiemployer plans. I'm sure you're all in the same boat—the recent market decline has caused a lot of problems. That's the first issue we're going to deal with.

Then the other speakers are going to talk about the other issues that we're going to cover today, which include the big increase in unfunded vested benefits; improving the lines of communication between professional advisers, plan administrators and trustees; discussion of actuarial assumptions and methods; and late-breaking developments.

So let's go on to first talk about the excessive market declines on plan-funded status.

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Market Decline Aftermath

Everybody knows we've had a terrible crash in the market lately. In the past three years, I think the majority of plans have had very low interest or investment returns, much lower than our actuarial assumptions. For the last year, 2002, I think the average return was negative 9 percent. I've seen as low as negative 25 percent for one of my plans—which is abysmal— and a high of a negative 4 percent. I don't think I've seen anything better than that, except for one public sector plan I have that's all in Treasuries, and they have a 5.5 percent return. I wish the multis had done as well.

Obviously this has really drastic consequences for these Taft-Hartley plans, because they're, for the most part, negotiated cents per hour. You have a fixed contribution rate, you've made benefit promises; now you don't have the assets to cover those liabilities.

I think another problem that we have to deal with is many of these plans use an actuarial value of assets that is different than market value, which can mask the effects of these asset losses. So you may go in and present an actuarial valuation that still shows that they're overfunded on an actuarial basis; but clearly that's going to disappear and it's going to be reversed when the true market value losses show up in the actuarial value.

I think as a result of the use of this actuarial value-of-asset method for these valuation reports, that sometimes our valuation report isn't going to give a true picture of whether the plan's funding is adequate and whether they're going to run into problems.

Ways of Measuring Funded Status

I'd like to talk about two different ways of measuring the plan funded status: One of them is what I'm going to call actuarial balance and the other one is ERISA statutory funding requirements.

I have to apologize that this is really geared towards U.S. plans. If there are a lot of Canadian plans, maybe somebody after the session can come up and give their perspective on how they might be affected differently. But I'm sure that Canadian plans have the same sort of statutory funding requirements that are going to cause problems for them too.

Actuarial Balance. In terms of actuarial balance, what's the relationship between the assets and the liabilities? I don't mean on a snapshot basis; I mean on a projected basis.

I think it's really important for us as actuaries to do some projections, either stochastic modeling or even deterministic, to show the trustees and the other advisers where the plan is headed if our experience is going to be borne out in the future.

ERISA. Then the second issue, ERISA statutory funding requirements, I think is the more immediate problem for these plans, because a lot of times we're finding that the funding standard account credit balance is being eroded. In effect, if we project out four or five years, we're finding that there may be a funding deficiency unless we take some steps to rectify it.

Along the same line, is the plan in reorganization or projected to be in reorganization? I don't think any of us have ever worried about reorganization before, but it is something you need to think about if you have a lot of retirees in your plan compared to actives .

Sample Plan Projection
Say you have a really simplistic projection. It's a very deterministic, simplistic approach to making a projection of a plan.

This particular plan had a very poor 2002 return; but at that point it looked like it was still in actuarial balance. And by that I mean, if you look at market value of assets compared to liabilities, there is sort of a match there. I just used present value of accrued benefits on funding assumptions. It doesn't look too bad. That's always my benchmark. If we make our funding return in this plan—I think it was 7.5 percent or 8 percent—are we going to have a problem in the near future? I only look out 10 years, because it seems like more than 10 years doesn't make much sense.

In terms of ERISA funding requirements, that is where's the credit balance going to go. When we start having to amortize these asset losses, the asset loss amortization can be huge, even with 15-year amortization—you have three years of asset losses in a row. When that's fully recognized, that's a huge payment. And if your active participant base has declined at all, you may be looking at very few contributions to pay off these amortization charges. So you have a real problem coming up, and the question is, how are you going to deal with it?

I think it's really important to do both of the kinds of projections for these Taft-Hartley plans to show the trustees and the other advisers what may be coming up and whether some kind of action needs to be taken.

Measuring the Problem
In terms of measuring the problem, you can do stochastic modeling to show the probability of assets equal to or exceeding liabilities in the next several years. But for some of our smaller plans, the cost can be prohibitive; and you may not want to do it. It's also very confusing to the trustees unless you have a good way of explaining what you're doing.

I think sometimes you can illustrate the problem just as well using deterministic modeling and showing estimated returns—even coming up with the kind of return you need for the next year to bring the plan back into actuarial balance can be really eye opening for these trustees if you come up with a 15 percent rate of return to bring the plan back into actuarial balance. That's sometimes quite a shock to them. They don't understand the magnitude of the problem.

It's certainly a lot easier to convey the results of the deterministic modeling. You can actually go in there with your model to the trust meetings and show them what happens with different returns. A lot of times these trustees think, "We've had a good return so far this year; the problem's gone." Well, you can show them that unless the returns continue for a number of years, you're still going to have problems.

When the Plan's Out of Balance

Your options for the plan when it's out of actuarial balance are pretty slim. Obviously, you can either cut benefits or increase your investment returns. Or you can seek additional contributions.

A lot of plans, especially on the West Coast, have been amended recently to slow down the rate at which benefits are being earned; and I think sometimes that's the only problem. But it may not be enough in some circumstances.

There is a limited ability to reduce benefits already accrued in the United States, but it's really limited. I think you can only go back two years—that's the IRS's current take on this. There are some people that say you should be able to cut benefits that had been accrued before two years ago, but I don't think the IRS is buying that, and you have to sign off on it for you to be able to do that.
You can seek additional contributions and that may be the best way to solve this problem with the credit balance. But it can be really difficult if you've got a number of contracts. That's the case for a lot of my plans, where you may have many hundreds of contracts come up at different times, maybe at different levels. The question is, how much do you need to increase the contributions? Are you going to be able to get it from everybody? What happens if you don't?

There is also a problem if the benefit formula is tied to contributions. You may want to consider an amendment that would not reflect the additional contributions to solve the funding problem in the benefit formula.

But say you have a percent of contributions plan in which you get an accrual based on 2 percent or 3 percent of the contributions coming in. If your increased contribution is 20 percent, a big portion of that increase is going to go toward benefit accruals, and that can create more of a problem. You'd be better off carving that benefit increase out of the formula so that it's not reflected. It all goes to solving the funding problem, and I think this is doable. We've had plans that have done this.

Obviously you can increase investment returns, but a lot of times the investment managers feel that means they should increase the equity exposure. Whether or not that's really going to be effective is my question. Certainly it's not going to be an immediate fix if you're also looking at ERISA statutory funding problems.

You can reduce expenses, but obviously this isn't going to go very far. Expenses are not usually a big portion of the problem.

Funding Deficiencies

On the other side of the equation, when you have a funding deficiency under ERISA that's projected, this is something you really need to talk to the trustees about. The consequences of the funding deficiency are pretty severe. I think we know that, but the trustees may not know that, and even the advisers may not be aware of what happens when there is a funding deficiency.

Initially there's the 5 percent excise tax that's imposed, and I think this is automatic. Again, the excise tax doesn't go into the plan, it goes to the IRS, so it's not very effective in helping the funding problems. It just creates more cost for the contributing employers.

The IRS can also assess 100 percent excise tax if the deficiency isn't cured. I never heard of them doing this. I think they're very reluctant to do this; they would rather come in and work with you to solve your problem. But I wouldn't count on that, because it is the big stick that they have to hit over your employer's head, so it's probably not good to count on them not assessing that 100 percent excise tax.

FROM THE FLOOR: Are we allowed to ask questions during this?

MS. WAGNER: Yes, sure.

FROM THE FLOOR: Have you had a plan that had a deficiency?

MS. WAGNER: I haven't.

FROM THE FLOOR: Anybody have a multiemployer plan that has had the deficiency? One person I guess.

MS. WAGNER: So far. I think a lot of us are looking at it.

FROM THE FLOOR: It's just coming on board in a few months, so we've got issues that we're dealing with right now.

FROM THE FLOOR: You have, I assume, until Sept. 15 to get all the paperwork together.

FROM THE FLOOR: Yes.

FROM THE FLOOR: For the record, there's one sad person in the audience.

MS. WAGNER: OK. The question that I get asked is, "Who is assessed the excise tax?" It seems obvious, but there are some kind of private letter rulings or something out there that actually talk about this.

First of all, if the funding deficiency is just caused by delinquent contributions, it's the delinquent employers that are assessed the excise tax; but if it's just a plan-wide shortfall of contributions negotiated compared to the required, then everybody gets assessed a portion of that excise tax.

Technical Requirements. There are some kinds of technical requirements. The IRS has to give 60 days notice before an assessment to the DOL and the PBGC. My dealings with the IRS indicate that they're real quick to get the DOL and the PBGC involved if there is a question about a funding problem coming up, so I think you'll see their involvement right away.

How to Avoid Funding Shortfalls

I think there are a number of things you can do to forestall a funding deficiency; and I will emphasize that it's really a temporary solution. There aren't any permanent solutions aside from reducing benefits or increasing contributions to eliminate this problem.

If you have a projected funding deficiency, I think you can buy yourself a little time by using a few techniques. The ones that we've looked at include a change to the asset valuation method maybe that smoothes over a longer period of time. This just gets you a little bit more time to avoid amortization of those high asset losses and gives you more time to increase contributions or reduce benefit levels.

Sometimes the change to the actuarial cost method can help. I had one plan that was pretty well-funded, but with the asset losses and the decline in the number of active participants, they couldn't amortize the losses. So we looked at changing to the aggregate method that would have wiped this out. Unfortunately, they then had another bad year of investment returns, so that's not an option anymore.

Sometimes the change to the unit credit from entry age can bring down your normal costs and also help forestall funding deficiency for a little while.

FROM THE FLOOR: Would you have to get approval from the IRS?

MS. WAGNER: Well, if you haven't made a change in the recent past—and I think it's five years—you can change to either one of those methods and also any of the statutory asset valuation methods without approval. It's automatic approval. But if you've made changes within the last five years, you have to go to the IRS.

If you want to change to the shortfall method, which I think also can help defer a funding deficiency for a while, you also have to go to the IRS to get their approval.

For anybody that's considering shortfall, I haven't used it for a long time. We went to the IRS to ask for approval, and the first thing the reviewer said was, "You can include the prior year experience losses as a shortfall loss to be deferred," which sounded really weird to me. I don't know how they're getting that out of the code. But let's say you go in and you ask for an approval as of 1/1/03, and you have all these losses from 2002. They're going to let you defer those through the shortfall period, which seems kind of strange, and it wasn't how I read the regs initially. But that is what they're telling us.

FROM THE FLOOR: I'll just throw in one note here that I made yesterday at the session I spoke at: going to or from the shortfall is not an automatic change. Any time you're changing an asset method where you don't get automatic approval, you have to file under Rev. Proc. 200-41, and you have to pay close attention to Section 3.04, because in there they say that if the intent of your change is to reduce the normal cost and the funding requirement, they may look at that and not approve your change. So that's just something you need to be concerned about.

MS. WAGNER: There are two other issues: The first one is you can ask the IRS for a funding waiver. I don't think this is very useful for Taft-Hartley plans, because I think it would only be appropriate if the funding deficiency were temporary. For the most part, with the multiemployer plans that are having problems, they're not temporary problems—they need to be addressed on a more permanent basis. So a funding waiver isn't going to do you any good, because you have to pay it back over a fairly short period of time.

I think an extension of the amortization period is much more useful, and this is something I wasn't very familiar with—probably because the IRS doesn't grant them very often. We went in and talked to the IRS about an extension of the amortization periods. Under the code, they can extend them up to 10 years, and you can pick and choose which ones you want to have extended.

Unfortunately they've only granted about a dozen of these since ERISA was enacted, so there haven't been very many. There have been a few to multiemployer plans, but not very many. I think you'd have to have a very convincing case that you're taking all kinds of steps to rectify the problem before they would grant you an extension.

Asset Valuation Method Changes

Let's talk more specifically about a funding method or an asset valuation method change. These are just techniques you can use to defer a funding deficiency, but it's not going to solve your actuarial balance problems. That's what's causing the problems.

Asset valuation method change: You can actually get a longer smoothing period than five years. Five years is the automatic, but there are a number of plans out there that use a 10-year smoothing. I don't think they're very happy about doing it, and it depends on who you get to review your application for a change in funding method.

You have to also recognize if you go for a longer smoothing period that it's going to defer the loans you get. If you get double-digit returns the next three years and you've gone through a long smoothing period, that's going to push those gains out too, so it might come back to bite you if you do it. When you do projections using this longer smoothing period, it can be fairly effective.

As I mentioned, when you change to the aggregate method, it eliminates your need to amortize asset losses. So it depends on if your plan is still fairly well-funded and it's just the fact that you've got these asset losses that are causing your problem, your funding deficiency, you could think about going to this aggregate method and see if that helps you eliminate those loss bases that you don't have to amortize. However, I don't think it's very effective for most of the plans that have a real problem.

Again, you can change to an entry age normal (EAN) cost method. We've found that that does decrease the overall normal cost a little bit, even when you recognize the increase in the actuarial liability. Then you have the change to the shortfall method.

FROM THE FLOOR: If you had a plan that is combining or offsetting bases, isn't it the case that when you combine or offset bases, you amortize the combined base over the shorter amortization period from the charges or the credits? Is that the case? Anybody remember that for sure?

MS. WAGNER: I have looked at this for a number of clients, and it never comes out right.

FROM THE FLOOR: How do you do it?

MS. TAMMY DIXON: You have to take the amortization period that is implied by the larger of your charges or your credits.

FROM THE FLOOR: The greater of the two?

MS. DIXON: Right.

MS. DIXON: So if your charges are higher, you take that as your period; if your credits are higher, you take that as your period. It's my understanding that when you do combining and offsetting of the bases, you take the greater balance, the charges or the credits. Generally it's going to be your charges that are going to have the higher outstanding balance. You take the amortization period that's implied by those charges divided by the payment on those charges.

FROM THE FLOOR: I think that's pretty much the same thing as I had in mind, because what I was saying in that case, since the charges would be larger, they'd have a shorter period, OK? They're primarily losses. If you had a plan where you went through a big plan amendment, reducing the rate of benefit accruals, then you'd be amortizing that amendment over a 30-year period as a credit base. Then by combining and offsetting the charges and credits, you'd actually bring down the minimum requirement.

MS. WAGNER: That's a great idea. I haven't thought about it in conjunction with that benefit decrease.

FROM THE FLOOR: It just occurred to me.

MS. WAGNER: Typically when you look at combining and offsetting, it doesn't do anything for you. But I think in this case you might be absolutely right. That would be very effective.

Funding Waiver

The funding waiver under 412(d): I think a lot of you are already familiar with this.

For multiemployer funding, you have to show that 10 percent of the contributing employers would experience substantial business hardship if the contributions were increased to satisfy the minimum funding standards. I think this is probably a test that's fairly easy to demonstrate for most of these multiemployer plans that are looking at big increases in the contributions to meet ERISA's funding standards. Ten percent of most plans is not a huge number.

I will repeat that it only provides temporary relief; it doesn't provide any permanent relief from the funding problem. You do have to amortize that waiver over 15 years beginning in the very next plan year, so it's ultimately going to increase the contribution requirements. However, if you've got a benefit or contribution increase coming down the road and it's going to be effective the next year, it might very well solve your problem—if it's not very significant.

There are some limitations. If you've got this waiver in effect, you cannot increase benefits. I think overall, it's probably pretty limited. That benefit increase seems to be a sticking point with a lot of trustees that I know.

The other option that we mentioned briefly is the extension of the amortization period. This is found in Section 412(e). It is supposed to be available under the code if the failure to provide relief would result in substantial risk to the plan continuation, a substantial curtailment in benefit levels or be adverse to the interest of the plan participants in the aggregate.

In talking to the IRS about the kind of demonstration they would need, it sounded like if you took these big contributing employers and were able to demonstrate that they could not increase contributions significantly the next few years without causing them to go under or something, that might be the kind of demonstration you would need to satisfy this requirement for them.

The code says that you can extend the amortization period by up to 10 years; it also specifies that this is true for some or all of the amortization bases. I think the IRS has never gone beyond five years, so if you go in looking for this, you ask for 10, you're unlikely to get more than five. The only case that I'm aware of that actually got an extension of the amortization periods was able to go in and demonstrate that they got a 20 percent contribution increase, that they cut back benefits accruals. They were able to demonstrate a lot of actions that they'd taken in conjunction with trying to solve their funding problem, and the IRS actually granted an extension of the amortization periods for them.

Rate of Amortization Critical

I think more important than an extension in the amortization periods is the rate at which these new amortization payments are amortized. You don't have to use your funding rate. You use the federal short-term rate, which is really low. I think it's 3 percent for 2003.

So if you're using an 8 percent or 7 percent funding rate, and you are able to amortize these amortization bases over a 3 percent interest rate, that really decreases your payment. It's probably more effective than actually extending the amortization period, just the way the code is written.

FROM THE FLOOR: Is that fixed once you start using it?

MS. WAGNER: No, it changes every year, so it's going to float. And if interest rates shoot through the roof, you could have a higher payment than you do under the funding rate. But right now it's really low.

Like I said, this is very rarely granted. I'd be interested in knowing if anyone has actually applied for this and gotten it.

There's also this cutback of accrued benefits and this is under 412(c)(8) . It allows certain reductions to the accrued benefits. The code says, "to the extent required by the circumstances." I'm not exactly sure what they mean by that. It's my understanding that the IRS applies the statute to allow benefit cutbacks only to the level accrued as of the earliest date for which the amendment may be taken into account for funding purposes. I think you can go back two years to cut back accruals since that point, but they won't let you go back and cut back accrued benefits that were earned prior to two years ago.

This is one of those sections where you can make an application, and the IRS has to respond within 90 days of the request, so they can't sit on it. The other two—the funding waiver and the extension of the amortization period, and even the change of funding methods—they can sit on for a long time. You may not get a response from them in the time you need it.

MR. SAMUEL STANLEY: I'm with Aon Consulting in our Southfield, Mich. office, which is a suburb of Detroit.

I'm going to try to cover three topics today:

- The abrupt increase in unfunded vested benefits and what that means
- Improving the lines of communication between the professional advisers, the plan administrator and the trustees
- The selection of actuarial assumptions and methods for valuation purposes and for special studies and all of the above

I'm going to stick to U.S. plans. I work solely on U.S. plans, but if anybody in here has anything to say about Canadian plans or other foreign plans, please share your thoughts in that respect.

The Abrupt Increase

Now, this is the third or maybe the fourth year of underperformance in assets, so it's likely that if the 2002 valuations didn't already show unfunded vested assets, then the 2003 likely will.

The 2002/2003 asset returns are generally poor, and Nancy mentioned one of the plans with a negative 25 percent. I've seen one like that. They're generally poor, but not universally. I actually work on one plan that is 80 percent fixed income, and believe it or not, that plan had an 18 percent rate of return in 2002, so that's a real anomaly. In general, we're looking at asset returns for 2002—the plans that I work on—which are in the neighborhood of negative 7 percent to negative 10 percent, some worse.

The third aspect of an increase in unfunded vested benefits is the environment that we're in—the reduction in prevailing interest rates can exacerbate unfunded vested benefits emerging. Now, keep in mind here—and I'm going to talk about withdrawal liability—that the withdrawal liability interest rates you use to value the present value of vested benefits that drive withdrawal liability doesn't have to be the same as your ongoing assumptions for funding purposes. Hence, this comment with respect to the prevailing interest rates.

Why Talk About This?

What is the bottom line here? Why does it matter? It matters because the trustees, our clients, are facing this issue, and it could be a shock for them that it actually is here. But from the point of view of us as actuaries, I think we're talking about this because a lot of us just aren't that familiar with it; we haven't done it that much recently.

How many actuaries in the room would consider themselves to be quite or very familiar with withdrawal liability and the calculations and everything else that goes along with it? About three or four out of 30.

I thought that this was a good thing for me to cover right now, because although I've worked a lot in withdrawal liability, it's been a while, so this has been a good refresher for me too.

Withdrawal Liability Overview
I'm going to take a few minutes and quickly try to go over an overview of withdrawal liability, just to refresh everybody. I know this is not supposed to be a teaching session, but I think this might be of some benefit.

Withdrawal liability is the subject in which unfunded vested benefits are determined by the actuary, fundamentally by the trustees. It's allocated to the employers in accordance with ERISA Section 4211, and the sections of the law that are in that range and just following that and the regulations.

Four Methods. There are four different methods that are in the law: The presumptive method is the full-blown method that's set forth in ERISA Section 4211. Under that methodology, the present value of unfunded vested benefits is allocated in 20 pools in which you determine the change in unfunded vested benefits each and every year. You amortize then over a 20-year, straight-line base and spread it to all of the employers on the basis of their contribution history over five years versus all of the employers that are in the plan. Basically you're taking the change in unfunded vested benefits and allocating that to the employers on the basis of their contribution history.

An important detail to keep in mind is that if you have unfunded vested benefits that are negative—in other words you have a surplus—then you use zero. Merely because the plan doesn't currently have any unfunded vested benefits doesn't mean that the employers have no withdrawal liability. You still have to carry backwards the full 20-year schedule and allocate that to the employer. =

This method must be used by construction industry plans; it's the default method for all the plans, unless one of the other methods is adopted.

Two-pool Method. The other methods are in the code. The two-pool method is kind of obsolete right now, because it was adopted with respect to the initial pool, which was for the plan year ending before, I think, Sept. 26, 1980. Essentially, for a calendar year plan, that would be the 12/31/79 pool. Then the change in unfunded vested benefits as of the end of the most recent valuation year would be the second pool. Those are the two pools that are allocated to the employers based on the contribution history. By the way, the Central States Plan, one of the largest plans in the country, used this, but the first pool has now gone away.

Rolling Five. The next method is the Rolling Five method. You can't use this for construction industry plans.

Now, the Rolling Five method is just a method that says whatever you got on the valuation date—strictly speaking, the day before the valuation date—whatever the unfunded vested benefits are as of that date, you allocate that to the employers on the basis of their five-year contribution history, and that's it. So it's a straightforward method that will result in zero withdrawal liability being allocated for a plan that doesn't have unfunded vested benefits, which is a nice result.

The direct attribution method is a method in which you figure out for each employer exactly what portion of the unfunded vested benefits is attributable to it, which could be one heck of a lot of work for plans like those in the construction industry or when people are moving around all over the place. But if you had a plan where the appointment is stable with respect to the employers and employees, then that method works nicely.

Finally, in ERISA, there's availability for the plans—other than construction industry—to adopt other custom methods. There are also rules with respect to mergers and acquisitions, etc.

Other Key Details
A few important details: What is a withdrawal? Withdrawal means that an employer ceases to have an obligation to contribute under the plan. When that happens, their withdrawal liability is determined as of the end of the plan year preceding the withdrawal.

PANELIST: How many people in the audience have had a client that is part of a multiemployer plan come to them and ask to evaluate a replacement plan so they can pull out?

MR. STANLEY: Well, we're not the plan actuary for the plan, obviously.

PANELIST: Right. It shows about four, I think.

MR. STANLEY: It's a fairly typical job that we'll do.

The other thing I want you to be aware of is the construction industry exception. If you have a plan that is a construction industry plan, employers can't be assessed withdrawal liability if the employer does not continue to operate business in the jurisdiction of the plan. So if they pull out and move out of state or what have you, so they're no longer doing business within the jurisdiction of the plan, then they cannot be assessed withdrawal liability.

There are similar exceptions for the entertainment and trucking industries, which I won't go into, but you should be aware of.

Finally, there are special rules in ERISA with respect to the sale of assets. What this means is if you're an employer and you own this business that is making contributions to the fund and you sell all of the assets for this plant to another employer, technically that would be a withdrawal. You no longer have the obligation to contribute under the plan, so you're withdrawing. You can get around that in ERISA if the purchaser takes over the obligation to contribute. A bond is required for one year's worth of contributions, and you have to keep it in place for five years, and you have to be secondarily liable for withdrawal liability in the event that the purchaser withdrawals or defaults.

There are a few other special rules to be aware of:

Partial Withdrawal. There are three different kinds of partial withdrawals. There is a 70 percent decline in contribution base units. You have a collective bargaining agreement, which is eliminated in the facility that is no longer part of the collective bargaining agreement (there are special rules here with respect to the construction industry).

There is a de minimis withdrawal liability so there are small amounts of withdrawal liability that are not assessable. It's actually $50,000 and less.

There are rules about some plans, which are not construction industry plans, that can institute rules where employers can come in and be free from withdrawal liability if they don't stay more than six years.

When withdrawal liability is assessed to the employers, the actuary has to set up a payment schedule. The payment schedule is based on the contribution amount that the employer made to the plan based on its high three-year base units out of 10 times the highest contribution rate during that 10-year period. There's a 20-year payment schedule that's set up on that. If the amount of unfunded vested benefits allocated to the employer is bigger than can be amortized on a 20-year basis in that manner, then the balance of it is forgiven, except in the case of a mass withdrawal.

A mass withdrawal is one of the ways that multiemployer plans can be terminated. Mass withdrawal is where all or substantially all of the employers withdraw from the plan within a three-year period.

Has anybody been involved in a mass withdrawal? Two, three of you.

My experience, which isn't huge in this respect, thank goodness, is that these things tend to snowball. What happens is, the employers that withdrew during the three-year period preceding the event are considered to be part of the mass withdrawal. When that's the case, the de minimis rules and the 20-year payment cap don't apply.

Unfunded vested benefits have to be valued in accordance with the PBGC rules for trusteed plans, so you're looking at extremely low interest rates. All of that gets assessed to the withdrawn employers.

PANELIST: Has anybody been involved in reviewing a withdrawal liability calculation for an employer, where your client has come out and asked you to review somebody else's calculations to make sure that it's done right?

FROM THE FLOOR: It happens all the time.

PANELIST: The answer is it happens all the time.

MR. DANIEL WHITNAH: (Deloitte & Touche) We have a situation in which one of our clients has been told by the plan administrator that they're the last employer, so they're on the hook for everything. We're going back in our unit as a mass withdrawal, and some other employers need to participate in the payout of benefits.

MR. STANLEY: I've only been involved in one situation where there was a challenge, and when I sat down and looked at the data, I had some reservations about whether the actuary was doing it right. Half the people in the deferred vested category were over 75 and 85.

Finally, I'll talk about the actuarial assumptions that are used for withdrawal liability: In general the actuary's assumptions or the trustee's assumptions are deemed to be reasonable.

New participants will no longer be added into the multiemployer plan. They'll direct contributions for the new employees into another type of plan defined contribution.

As a result, you rapidly see a change in the demographics of the ongoing multiemployer plan. They may have a structure of contribution per shift or contribution per hour related to a dollar-per-month benefit that no longer makes sense, it needs to be revised continually, because it was built on the assumption of a particular average age and service or a particular funded level in the plan.

PANELIST: I appreciate your comment on this, but the fact that there is withdrawal liability now when there hasn't been in the past is going to add a new dynamic into all of the emotions that go into the continuation of this plan, which may or may not be a good thing.

MS. WAGNER: I'll point out that trustees have the ability to refuse contracts that are structured that way. We have seen a lot of plans, or at least a couple of big plans, that don't accept contributions unless it's for the entire bargaining unit because of the problems that you mentioned. You have this huge increase in cost on a per capita basis that the contributions really aren't structured to accommodate, so they kick them out of the plan and assess withdrawal liability rather than accept that kind of a collective bargaining agreement.

MR. STANLEY: Interesting. Well, as actuaries, I think we need to be very careful of the way we establish the withdrawal liability assumptions. I wish I could say that I know how to do this, but this is a difficult area.

How are you going to set these assumptions for withdrawal liability? I mean, there are really two ends of the spectrum. You're going to set the assumption, and I'm talking about the interest rate discount assumption. You're going to set that on the basis of your ongoing plan assumption. On the other end of that, I guess you could set that on the basis of the prescribed PBGC assumptions for trustee plans. Those are going to be the two ends.

There are obviously a lot of risks associated with either one of the ends of that spectrum, so I'm not going to comment other than that. But you need to be very careful about setting appropriate withdrawal liability assumptions, because bad things could happen however you go.

You also need to be very careful when you're making changes to the way in which you go about doing it. I would just like to suggest that whenever you make a change, somebody potentially could say you were doing it wrong before.

MS. WAGNER: One other item is, if you're going to use an actuarial valuation of assets for this calculation—which probably doesn't make any sense any more, because assets have been tanking—but if you're going to make a change in the method, it probably should be your decision. If it's the trustees making the decision, some attorneys are saying that that's a change in withdrawal liability method that has to be communicated to all employers before it's made. So I think it's construed as an actuarial method that the actuary can change. But if you're going to have the trustees decide on it, there are some attorneys that are saying that it's not something they can do without notifying all the employers ahead of time. So you need to be careful on that score as well.

MR. STANLEY: There are lots of places you have to be careful when you're doing this.

Fundamentally, it's my understanding that—this is strictly legal, so it's just hearsay—the determination of withdrawal liability by the trustees is deemed to be correct unless its proven not to be so by a preponderance of the evidence, quote-unquote. Furthermore, if an employer contests this withdrawal liability assessment by the trustees, it's required to be sent to arbitration. However, I think it's possible to contest the judgment of an arbitrator, and in that case, it will go to federal court.

Furthermore, I think that it probably wouldn't be unforeseen to see some attorneys—and I have nothing but respect for the legal profession— try to turn this into a fiduciary liability case. And in that case, it is going to federal court. So you need to be very careful that you are prepared to testify to the way in which you've established your withdrawal liability assumptions and methods at that level.

Improving Communication

A lot of what I've dealt with so far in any event deals with communications. For example, the trustees and the legal counsel understanding withdrawal liability—what it is, what it means, how it's determined, what all the variables are, what the implications are. What Nancy has covered regarding funding problems has a lot to do with communicating this stuff. Do we believe it? What happened? How did we get here? Effective communication is the key to success in being a consultant and avoiding problems.

For actuaries, it's more important than ever that all parties understand what we're talking about here:

- The financials of the plan
- What is this?
- How did we get this way?
- Why are we here?
- What do they need to do?
- How do they need to do it?
- When do you need to do it?
- What are the steps?
- Who needs to do it?
- What happens if we don't?

All of these things need to be very carefully and effectively communicated, and the bottom line is, avoid surprises at all costs.

I suggest that you make sure that the trustees ask the tough questions, and if they don't ask you the tough questions, ask them yourself, and make sure that they hear the answers to the tough questions.

Discuss the design alternatives. Don't wait for them to ask. Don't let fees get in the way. You have to do the work that you need to do to give them the advice that they have to have to make the right decisions.

I know this might be a big surprise to everybody in this room, but actuaries tend not to be real good communicators. We need to do a better job at this, and this takes work. We need to do all of the simple things that we've all learned how to do, but we just need to take better attention using agendas, discussion guides, prepare illustrations, examples, charts. Make sure you know your audience, be sure they understand, take the time to do the work and admit to yourself that you need help. Get the peer review; bring in the people who are perhaps better skilled at this than you so that you're sure that the trustees and your clients and the legal counsel and the administrators and everybody else understand what they need to know.

FROM THE FLOOR: I have a couple of questions: Assuming that you've gone through all these steps that you laid out here, what is your advice or opinion on when you get into that situation where you've dotted all the I's, crossed all the T's, you've documented, but the ultimate decision-maker for certain things that you recommend is the board of trustees, and you see that they are not listening to what you're telling them. Have you run into those situations?

MR. STANLEY: What do you mean by not listening? They're ignoring you, or they just don't understand?

FROM THE FLOOR: I think it's more of either a combination of both, where they are ignoring you and—using an example I gave out this morning in a session from health and welfare—they just don't comprehend the impact of medical care cost inflation.

You have a similar situation when you're doing projections on a long-term basis because these funds don't turn on a dime like a single employer plan can. You're there in a position of seeing where it's headed, and they just don't get it.

MR. STANLEY: Well, if they just don't understand, it's not a matter of them ignoring you. They just don't understand. This is a suggestion. Get somebody else to tell them. Find somebody else.

MS. WAGNER: I think that's right. A lot of times you can recruit the attorney, because the attorneys frequently have better rapport with the trustees. You can recruit the attorney, and he or she can talk about fiduciary obligations that the trustees have to the plan participants. A lot of times, just that little club will help.

MR. STANLEY: There's a very skilled consultant in our firm. She's not an actuary, but she's very familiar with defined benefit plans and the design topics and everything else, but she's not an actuary, so somehow or another she's just got the ability to communicate these things to the trustees sometimes better than I can, because she doesn't think like an actuary—which is a good thing sometimes.

FROM THE FLOOR: Assuming that that happens where the point is there and they just ignore it for some purpose. What are you going to do?

MR. STANLEY: They're ignoring your advice?

FROM THE FLOOR: Yes. They've ignored your advice because they have an agenda that they're going to not increase contributions to the plan; they would rather see that in the pay envelope. What's your advice on that one?

MR. STANLEY: Better put your advice in writing.

FROM THE FLOOR: Assuming that has been done?

MR. STANLEY: What would you do? (laughter)

FROM THE FLOOR: I know what I would have done. I would have fired the client.

MS. WAGNER: Yes. I was going to say the same thing. From a risk management standpoint, I don't think he can afford to not take some action. That's really the only action you have available.

FROM THE FLOOR: You said something about improving the lines of communication. I always see the actuary as being the person who sees what's happening. What happens if you run into a situation where you don't have a lot of confidence in one of the other professionals? For example, you don't have a benefits attorney in the room; you have a labor attorney, and that attorney is not skilled in all the benefits law. Or you have the plan administrator's second cousin as the auditor?

Have you ever run into those situations where you perceive something is not being done from another standpoint, and you believe it's your responsibility to make the board aware of this uneasiness or reservation you have with some other professional?

MR. STANLEY: Have you ever heard the saying, "All ships rise and fall with the tide?"

FROM THE FLOOR: No.

MR. STANLEY: You haven't heard that? We don't want to go down with somebody else, either, do we?

MS. WAGNER: Being on the West Coast, a lot of plans have third-party administrators (TPAs) that maintain all the data. A lot of times they don't understand withdrawal liability in their rules, and you really have to sit down and communicate with them, in particular, to explain what they need to be looking for. I think it's one of those things where if they don't know what they're doing, you're all going to be tarred and feathered together.
So it's up to you to step in and outline what you have to look for: You have a stop in contributions, or if there are multiple locations from the same employer, you have to look at that differently and tell us about all the contributions. Those kinds of things, I think, are really important.

You have to communicate with everybody, especially if that TPA isn't familiar with some of the issues he needs to be thinking about.

MR. STANLEY: I think the point everybody's coming up with here is when you're dealing in this marketplace, you can't be shy when you're sitting there talking to the board of directors, because these are enormous issues. You don't want to be sitting in a court of law and having all of the things brought out in that environment.

MS. WAGNER: I think that's especially true with these complicated plans. For example, one of the attorneys that I just started dealing with on a new client wasn't familiar with partial withdrawal. This is the first time they've had withdrawal liability. He didn't understand it, and a lot of colleagues said, "He knows the law; you just need to give him the information he wants." Well, a lot of times they don't know that. It's up to you to communicate, "This looks like a partial withdrawal to me, and here are the implications of that." I don't think you can take it at face value that they know exactly what they're doing in these areas, and you need to help them out.

Selection of Methods

MR. STANLEY: I want to talk briefly about selection of actuarial assumptions and methods. I'm hoping that this can be interactive.

I moderated or led a discussion like this within our group at my firm, the National Multiemployer Consulting Committee. We went through discussions and issues like this in our firm and spent about two hours doing it, so there's no way we can cover that in this kind of detail now. So we're just going to try to give an overview of some of the issues, and I'm hoping that some people will speak up and describe the kinds of things you're doing. What kind of cost methods do we use to value multiemployer plans?

FROM THE FLOOR: Entry age normal.

MR. STANLEY: I think it's generally the case that most of the plans are valued using entry age normal. Does anybody use any other methodologies?

FROM THE FLOOR: Projected unit credit.

FROM THE FLOOR: I just switched to a unit credit.

MR. STANLEY: Pay related? Was the projected unit credit a pay-related plan?

FROM THE FLOOR: No, it's a flat dollar. If you have unreduced 30-and-out benefits, you have to anticipate that was the (inaudible due to not using microphone)

PANELIST: Sure. These remarks that we're making, of course, are strictly our own and they're not the opinion of our employer, the Society of Actuaries or anybody else—just us. From my personal point of view, Sam, I don't feel comfortable with unit credit. I used to work on plans that when I first started working on them had unit credit, and I don't feel comfortable with that.
Now, how about intermediate costs? Yes, go ahead.

FROM THE FLOOR: What method did you go from when you went to unit credit?

FROM THE FLOOR: The case at hand happened to be frozen entry age. The change was purely to keep the credit balance from diminishing as rapidly as it was going to.

FROM THE FLOOR: Any thoughts on whether that's for a certain time period or for the indefinite future?

FROM THE FLOOR: No idea. We'll watch it and see how it goes, because I think the problem is going to be with them for quite a few years.

MS. WAGNER: We went from entry age normal to projected unit credit just for that reason, to reduce the normal cost and reduce the spending requirements.

FROM THE FLOOR: Was that for a set time period?

MS. WAGNER: Not for a set time period. I don't like it. I don't want to stay on it.

PANELIST: Just as a side note: We did a study for a group of employers that were looking to reduce cost because of minimum funding issues. What we found out is if you switch the unit credit for a short time period, five years or whatever you want to define it as, when you go back to entry age normal—assuming that that's what you wanted to do—ultimately your costs will eventually have to ratchet up to level the term. The employers decided that's not what they want to do, because all that's really doing is cost shifting, which is sort of like changing your assumptions and perhaps changing them over longer periods, things of that nature.

MR. STANLEY: Yes, probably what they're doing is not necessarily making the change to reduce the contributions; they're mainly trying to stave off a funding deficiency. In their conversations with the board, they're probably or most likely going to recommend that as contribution rates are set in the future, they're not doing unit credit, but more likely on that entry-age or FIL method.

MS. WAGNER: Sometimes it's easier to change the funding method than the benefit accrual rate. While you're having these discussions you have to do something.

MR. STANLEY: Fundamentally, are we really funding? I'm not recommending that any of the plans that I work on be funded on an ERISA minimum basis. None of the plans are being funded on that basis.

I'm seeing people nod their heads on this. What are other people doing in terms of development of costs? If you're not looking at the ERISA minimum, how are you doing it?

FROM THE FLOOR: We're basically looking at menus. Most of the employers that we're dealing with have rejected the idea of assumption changes because of this cost-deferral issue. So now what we're doing is looking at things like menu of option changes, benefit reductions down one access, early retirement on another. The third dimension is, what does a nickel buy you in extra contributions? The idea there is to get folks aware of using long-term projections—what the costs are on the horizon? Then both sides need to start thinking outside the bargaining. Both sides need to think in terms of where on that menu, that matrix, can they fit in where they need to go as trustees, given their fiduciary liability.

PANELIST: Now, how do you go about measuring through what is affordable? What's affordable from the plan's standpoint? The way I look at this is in like aggregate costs. I feel comfortable with aggregate costs.

Sometimes it's easier to communicate to the trustees in terms of what I'd call a rolling amortization period, where you reamortize the unfunded liability over the same period every year, which is generally between 15 to 16, 17 years in that length.

FROM THE FLOOR: In our situation we have two different types of programs—one where the employers have a set negotiated rate that they're basically trying to stay within. In other words, if minimum's exceeding that rate, using those options available to them, get the minimum required down below the negotiated rate. We do have other employers that actually have promised the benefits, which means that they have guaranteed to pay the minimum required contribution as it goes up. And that gets into a whole other set of issues.

Assumptions

MR. STANLEY: Well, we talked a little bit about asset methods, so I guess I'm going to skip over that and we'll just go to assumptions.

Let's talk about mortality. What kind of mortality assumptions are people using out there? Are people using assumptions that are consistent with single employer plans, or are you doing different things for multiemployer?

I recently started some full-blown experience studies for the larger plans. For one I just did in the construction industry, we determined that pre-retirement, pre-65 mortality is consistent with G51. Pre-65 mortality is consistent with G51 or a little substandard to that; and post-65 mortality is actually a little better and is consistent with what we used to call O65, which is the G51 table projected in 1965 with Scale C.

So we blended those two tables. And that's what we're using for valuation purposes, because it seems to be perfectly consistent, actually slightly conservative, in comparison with the experience.

One of my other colleagues in New York works on the large plans in the maritime industry. He's using G51 mortality across the board for those plans, and his experience studies indicate that that's conservative. Is anybody else doing studies like this?

PANELIST: We have one individual doing studies, and those are, I assume, large plans?

FROM THE FLOOR: Yes.

PANELIST: Okay, we'll have to move on.

MR. STANLEY: We'll come back to assumptions. We've got about 15 minutes.

PANELIST: We need to get on the last subject here, which is late-breaking developments.

MR. STANLEY: I think we'll jump back into those assumptions, because they are very important on everything we do on this.

PANELIST: Shall we just move ahead and skip the assumptions?

MR. STANLEY: I think we'll come back to that.

Late-breaking Developments

MR. LEE BUCHELE: I'm with Cot & Associates in Pittsburgh.

I guess I'm using a little bit of a loose definition of late-breaking, but we have three topics. Nancy mentioned the fourth, so maybe I'll ask her to say a word about that, because I don't know anything about it.

Portman-Cardin Bill

First we have the 2003 Portman -Cardin Bill. There was another one a couple years earlier. This bill was introduced in Congress earlier this year, and it covered a lot of ground. I won't begin to try to cover everything that's in the bill.

I'll quickly mention about six provisions and then spend a little bit more time on the emergency investment loss, which I think will be of considerable interest to all of us in the multiemployer world.

Data Collection. First, data collection could be as of a date within the plan year or as of a date within the prior plan year. I think the IRS took a different view in one of the responses in the gray book in an EA meeting the last couple of years, so this would loosen that requirement.

Bond Rates. I think you know about 30-year Treasuries being replaced by long-term corporate bond rates. That would be phased in over a period of a few years for lump sums where the delayed effective date for Taft-Hartleys. And it's the usual thing about the expiration of the last of all the collective bargaining agreements.

$5,000 Cash-out Limit. The $5,000 cash out limit, I don't know if you have that...if that is present in too many of your multiemployer plans, but if it is, the limit would be automatically adjusted every year.

Required Beginning Date. The required beginning date would go from 70.5 to 75. That would be phased in over some years. The actuarial increase for late commencement as I understand it, would stay at 70.5. So that's another little element of confusion to make the DB world more complicated than it is. The excise tax for failure to comply with the required beginning date would be reduced from 50 percent to 20 percent.

25 Percent Deduction Limit. This one I'm not sure I fully understand how it would work, but it could become somewhat important: the 25 percent deduction limit for contributions to both DB and DC plans would not apply if the employer DC contributions are less than 6 percent of pay. I'm not altogether sure how that would work, but that provision is in the bill.

Emergency Investment Loss. Then we have the emergency investment loss. Losses that fall into that category would be amortized over 30 years. This is exclusively for multiemployer plans.

The loss is defined as the difference between what the market value is at the end of a plan year and what it would have been if planned assets had earned their actuarial rate at market value—not actuarial value. So you measure that difference, and then that's carved out of the rest of the investment losses, and you amortize it over 30 years.
Apparently you get about three opportunities to do that, because you define the loss a year at a time. And it's a period of about three years; so you might have three separate emergency investment losses, if I understand that provision correctly. That's it for Portman-Cardin, unless anyone has anything to add or subtract or correct.

204(h)

Then we have the 204(h) notice. As you know, 204(h) notices have been around for a while. The Economic Growth & Tax Relief Reconciliation Act (EGTRA) strengthened the requirement a little bit, and the Jobs Creation and Worker Assistance Act (JCWA) made some technical corrections to EGTRA.

In essence, they added early retirement and retirement-type subsidies to the list of things that would require 204(h) notice. They also added excise tax for egregious failures. The fund regulations are effective in April. They apply to amendments that are effective on or after Sept. 2. They also apply to provisions that are incorporated by reference, which might be collective bargaining agreements that take effect on or after Jan. 1, 2004. So we have a delay of a few months on that type of provision.

204(h), as probably everyone knows, requires notice for significant reduction in the rate of future accrual or significant reduction in early retirement benefits or retirement-type subsidies. It must be written in a manner that's calculated to be understood by the average plan participant. You cannot mislead; you must provide sufficient information to allow individuals to understand the effect. The content must permit the individual to determine the approximate magnitude of the reduction.

So they really don't want you to play any games with it. You have to tell the story; you have to tell it like it is. The notice can be delivered by first class mail or by hand delivery. You can't just post it on a bulletin board. You can deliver it electronically, but if the participant wants a follow-up by paper, he has to be able to get it. The administrator must take steps to insure actual receipt.

For an egregious failure, the participant gets the higher accrual for the period of failure, so up until the time you correct it and give him the notice, plus the notice period following that date—15 days for multiemployer—he gets the higher accrual, just as if the reduction had not taken place.

If you convert a money purchase plan into a profit-sharing plan—and I'm seeing a fair amount of interest in doing that in Taft-Hartley plans right now—if you make that conversion, even if all the provisions are substantially the same, that still is an event that requires a 204(h) notice. So you're going to have to tell the membership that you're making that conversion and what the implications are.

One that I don't know the answer to (if anyone does, please speak up),if you tighten up your suspension of benefit rules ... For example, if you reduce the number of hours that can be worked before suspension is triggered, does that require a 204(h) notice? I don't know the answer. Does anyone have any experience with that?

The timing of the notice is generally 45 days, but it's 15 days for small plans and for multiemployer plans. The 204(h) notice, the DOL says, will satisfy the summary of material modifications requirements with respect to the people who actually receive the notice. So if you want it to serve that purpose, make sure you've covered everyone who needs to be covered.

Then third, we have the sheet metal workers case. This is in the Fourth Circuit. Quite frankly my knowledge of it is sketchy, so if there's anyone here who is close to that situation and knows more details, feel free to fill in. The Fourth Circuit is North Carolina, South Carolina, Virginia, West Virginia and Maryland. A sheet metal workers pension plan took the position that benefit improvements that were granted to retirees were not part of the accrued benefit because they were never accrued or earned. They were just granted as a sort of bonus, so they were not protected. They could be taken away.

That view has prevailed in court, and it has gone as far as the Circuit Court of Appeals in the Fourth Circuit. So unless it goes any further, it has the force of law, but only in that circuit.

To my knowledge, that's the only case so far, they're the only ones who have tried it.

FROM THE FLOOR: I'd say that the attorneys that I've spoken with about that, and it's just one firm, feel very comfortable that that approach would be upheld if it went all the way to the Supreme Court.

MR. BUCHELE: Nancy, you had a fourth item?

MS. WAGNER: Yes. This is something I keep hearing about—new IASB standards. There's been a lot of talk about conforming the U.S. accounting standards to IASB. Currently the plan is not to include any carveout for multiemployer plans, so if this really comes to be, we're all going to have a lot more work to do to produce these numbers in conformance with IASB standards. I think this is kind of crazy, but that's what I hear.

MR. BUCHELE: I'll add a couple little things here. One of the things I do is look through the Web sites. The IRS has the employee plans, the examination guidelines for multiemployer plans online, if you ever want a good source for practically everything that we went over today. It's on their Web site. Download it and put it into a PDF file and put that in your books.

Also, I'm going to do a little commercial here. I'm on the EA2A and 2B committees, so if anybody would really like a challenge, we're always looking for people who want to write questions for those tests. I'm the vice chair this year and I'll be the chair next year. So if anybody wants to be an item writer, let me know. We'll put you through the ringers.

The only thing is I'd like to go back to the assumption page that Sam was on before we moved him around. I think for multiemployer plans, the selection of those things are quite difficult to come up with, and they are unique.

They have found their other assumptions, and the one I keep bumping up against is the disability definition, because that has such an important impact on the liabilities and plans.

MR. STANLEY: Disability incidence?

MR. BUCHELE: Yes. With the situations I'm talking about, you have to look specifically at what the plan defines as "disability." Any occupation, that specific occupation that you just can't stand in a corner for three hours in a row, you're disabled, that sort of thing. You have to be careful on that. Hours worked, that's one that comes up quite a bit.

MR. STANLEY: That's a difficult one. The other disability incidence, I'd suggest the best way to set that is by way of an experience study.

MR. BUCHELE: If you have a smaller plan where you don't have credible data, you're just going to have to wrestle with it.

MR. STANLEY: Still, do an experience study and compare that to the expected incidence from whatever you're using to engage whether it's reasonable or not. Hours worked assumptions is a difficult one, and I'd just like to say that I wonder if anybody else does it the way that I've been doing? I take, for evaluation, an average over the last two or three years and use that average to project forward out for each person. What do you do?

MS. WAGNER: A lot of times I use a scale based on service in the plan. A lot of times, when I look at the experience, you'll find that people with more service work more hours, and I think it's really important to tie it. I mean, every plan's different, and sometimes I don't think that holds true with the construction industry. But a lot of times in the industries, you'll see that hours worked is tied to service in plan.

MR. STANLEY: It's probably not that different than working with each person individually when you're doing a projection on that basis that would reflect your service. I've seen valuations done by other people that use flat dollar amounts or flat hour amounts, 1,500 hours or whatever it is. That scares me for some reason.

MS. WAGNER: Yes, I think it especially is critical if you give more than one year of service. For somebody that works 2,000 hours, they might get a year and a half of service or something like that. So it's real important to look at the data and make sure it's consistent with what you're using for your assumptions.